

Decision **PROPOSED DECISION OF ALJ TSEN** (Mailed 10/16/2015)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Apple Valley Ranchos Water Company (U346W) for Authority to Increase Rates Charged for Water Service by \$3,127,463 or 14.88% in 2015, \$2,056,455 or 8.48% in 2016, and \$2,160,731 or 8.19% in 2017.

Application 14-01-002
(Filed January 2, 2014)

**DECISION APPROVING FINAL SETTLEMENT AGREEMENT, RESOLVING
DISPUTED ISSUES, AND ADOPTING THE 2015, 2016, AND 2017 REVENUE
REQUIREMENTS FOR APPLE VALLEY RANCHOS WATER COMPANY**

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REQUIREMENTS FOR APPLE VALLEY RANCHOS WATER COMPANY**

Summary

This decision authorizes revenue requirements for Apple Valley Ranchos Water Company for the years 2015, 2016, and 2017. Table 1 below illustrates the revenue requirements for test year 2015, as adopted. The substantial rate increase is largely due to a reduced sales forecast in order to comply with the Governor's mandatory reduction executive order. Pursuant to the Governor's Executive Order B-29-15 and the Commission's Resolution W-5421, Apple Valley Ranchos Water Company and its ratepayers must reduce water usage by 28 percent as compared to 2013 levels.

Table 1 - Revenue Requirements

	Proposed Revenue Requirement	Adopted Revenue Requirement	Proposed Percentage Increase (Rates)	Adopted Percentage Increase (Rates)
2015	\$24,151,000	\$ 22,370,000	35.36%	25.27%

Based on the adopted revenue requirements, a residential customer maintaining consumption at 16.45 per hundred cubic feet (Ccf) will see its monthly bill go up from \$64.68 to \$81.87 each month, which represents a \$17.19 difference and a 26.58 percent increase. However, an average residential customer that achieves the conservation goals set by the Governor's Executive Order will see its monthly bill increase by \$1.71 and 2.64 percent only.

This decision adopts the Final Settlement Agreement between Apple Valley Ranchos Water Company and the Office of Ratepayer Advocates as filed

on September 14, 2015. This decision also resolves all other disputed matters necessary to adopt the revenue requirement for 2015, 2016, and 2017.

In addition, this decision reviews the Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA) revenue decoupling mechanisms pursuant to Decision (D.) 12-04-048. This decision finds that the WRAMs/MCBAs are achieving their stated purpose by severing the relationship between sales and revenue and removing most disincentives for Apple Valley Ranchos Water Company to implement conservation rates and conservation programs, and that overall water consumption by its ratepayers has been reduced.

The decision does not adopt any of the WRAM options set forth in D.12-04-048, because large WRAM balances result from inaccurate sales forecasts and none of the WRAM options address inaccurate/inflated forecasts. We anticipate a low risk of under-collections in the WRAM account during this General Rate Case after requiring a reduced sales forecast to comply with the Governor's Executive Order B-29-15.

This proceeding is closed.

1. Procedural History

On January 2, 2014, Apple Valley Ranchos Water Company (Ranchos) filed a General Rate Case (GRC) Application (A.) 14-01-002 requesting authority to increase its revenue requirement by \$3,127,463 or 14.88 percent for 2015, \$2,056,455 or 8.48 percent in 2016, and \$2,160,731 or 8.19 percent in 2017. Ranchos is a Class A water company subject to the jurisdiction of this Commission and the current requirements of Decision (D.) 07-05-065, which adopted a revised Rate Case Plan for Class A water utilities (Rate Case Plan). The Office of Ratepayer Advocates (ORA) filed its protest to the Application on

February 10, 2014. The Town of Apple Valley (Town) filed a motion for party status on February 19, 2014, which was granted on February 20, 2014.

The assigned Administrative Law Judge (ALJ) conducted a prehearing conference (PHC) on April 1, 2014. On April 17, 2014, the assigned Commissioner issued a Scoping Memorandum and Ruling. On April 30, 2014, public participation hearings were held in Apple Valley.

Evidentiary hearings (EHs) on the litigated issues were held on June 16 and 17, 2014. Ranchos, ORA and the Town filed timely opening and reply briefs.

On August 8, 2014, ORA and Ranchos filed a joint motion requesting approval of a Settlement Agreement.

A Proposed Decision was mailed on April 1, 2015, which decided litigated issues between the parties, adopted the majority of the Settlement Agreement and modified the Mains Replacement Program settlement.

On May 1, 2015, pursuant to the terms of the Settlement Agreement, Ranchos and ORA rejected the Proposed Decision modifying the proposed Mains Replacement Program in their Settlement Agreement.

On May 4, 2015, Ranchos and ORA notified the Commission of an Amended Settlement Agreement. The Amended Settlement Agreement maintained the terms of the Settlement Agreement as to all issues except the Mains Replacement Program. The Amended Mains Replacement Program is a compromise between the original Settlement Agreement and the Commission proposed modification in the Proposed Decision. While not a party to the Amended Settlement Agreement, the Town was represented by counsel and participated in settlement negotiations.

On May 13, 2015, the assigned ALJ held an EH on the Amended Settlement Agreement concerning the Mains Replacement Program. The Amended Settlement Agreement was admitted into the evidentiary record, Ranchos and ORA presented witnesses in support of the Amended Mains Replacement Program, and the Town was given an opportunity to present witnesses and conduct cross examinations. Ranchos and ORA jointly moved for adoption of the Amended Settlement Agreement. The Town opposed the adoption of the Amended Settlement Agreement on the issue of the Mains Replacement Program only.

The Commission issued an interim decision (D.15-05-038) on May 27, 2015, rejecting the Settlement Agreement, adopting interim rates based on the Proposed Decision mailed on April 1, 2015, and reopened the record to address Governor Brown's Executive Order B-29-15 requiring mandatory water conservation measures.¹ In the interim decision, we declined to adopt the Amended Settlement Agreement to allow comments by the Town. We also held all litigated issues to be resolved in today's decision.

On June 19, 2015, the assigned Commissioner issued an Amended Scoping Memorandum requiring supplemental testimony from the parties and additional comments. We directed Ranchos and ORA to update their testimonies related to water consumption and sales forecast to comply with the Governor's Executive Order B-29-15 and the Commission's Resolution W-5041. We further directed parties to submit comments on the Amended Mains Replacement Program.

¹ The Governor issued Executive Order B-29-15 on April 1, 2015, requiring a statewide 25% reduction in water usage as compared to 2013 levels. Pursuant to that Order, we issued Resolution W-5041 specifically directing Ranchos to achieve a 28% reduction in its water production from June 1, 2015, to February 15, 2016.

On June 24, 2015, Ranchos submitted its Supplemental Testimony with revised water sales forecast, as well as adjusted testimony on the following subjects to address the flow-through impacts of the changes in the water sales forecast.

- Water Production
- Revenue at Present Rates/Revenue at Proposed Rates
- Purchased Power
- Leased Water Rights
- Replenishment
- Uncollectibles
- Unaccounted for Water
- Franchise Requirements
- Working Cash/Rate Base
- State/Federal Income Taxes

Also on June 24, 2015, the Town filed its comments against adoption of the Amended Settlement Agreement. Ranchos and ORA filed timely reply comments in support of the Amended Settlement Agreement.

On July 3, 2015, ORA submitted its comments on Ranchos' Supplemental Testimony. ORA recommended, and Ranchos agreed to, revision of the sales forecast for private fire sale customers since there is unlikely to be a reduction in usage for that class. Ranchos and ORA agreed to corresponding changes to the forecasts of other customer classes in order to reach the mandated 28 percent reduction. Other than this revision, Ranchos and ORA are in agreement on Ranchos' Supplemental Testimony.

On September 1, 2015, the assigned ALJ issued an e-mail ruling requiring Ranchos and ORA to submit a Final Settlement Agreement and Joint Comparison

Exhibit reflecting changes/updates to both the Mains Replacement Program and the testimonies. Ranchos and ORA submitted their response on September 14, 2015.²

2. Standards of Review

2.1. General Standard of Review

Ranchos, as the applicant, bears the burden of proof to show that the regulatory relief it requests is just and reasonable and the related ratemaking mechanisms are fair.

2.2. The Final Settlement Agreement

The Commission's Rules of Practice and Procedure (Rules) specifically address the standard of review on proposed settlements. Pursuant to Rule 12.1, not all parties to the proceeding need be parties to the settlement,³ and the proposed settlement must be reasonable in light of the whole record, consistent with the law, and in the public interest.⁴

3. The Final Settlement Agreement

The majority of issues in this proceeding were settled between Ranchos and ORA. This decision adopts the Final Settlement Agreement as filed by

² The Final Settlement Agreement is attached to this decision as Attachment A. The Joint Comparison Exhibit is attached to this decision as Attachment B.

³ Rule 12.1(a) states in relevant part: Parties may, by written motion any time after the first PHC and within 30 days after the last day of hearing, propose settlements on the resolution of any material issue of law or fact or on a mutually agreeable outcome to the proceeding. Settlements need not be joined by all parties; however, settlements in applications must be signed by the applicant.

⁴ Rule 12.1(d) states: The Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with the law, and in the public interest.

Ranchos and ORA on September 14, 2015. The Town, while not a party to the Final Settlement Agreement, was represented by counsel, participated in settlement discussions, and filed comments.

The settled issues we approve in this decision are:

- Water consumption and revenues;
- Operations and maintenance expenses;
- Administrative and general expenses;
- Taxes other than income;
- Income taxes;
- Utility plant in service
- Depreciation rates, reserve, and depreciation expense;
- Rate base;
- Park Water Company general office;⁵
- Affiliate transactions;
- Rate design;
- Water quality;
- Memorandum and Balancing Accounts (without modification);
- Special requests;
- Continuation of Water Revenue Adjustment Mechanism (WRAM)/Modified Cost Balancing Account (MCBA) mechanism;
- Low-Income Ratepayer Assistance Program;
- Requests to the Commission; and
- Requests as a result of the Settlement.

⁵ Apple Valley Water Company is a wholly owned subsidiary of Park Water Company and is therefore assessed a portion of Park Water Company's general office expenses.

The Final Settlement Agreement is mostly identical to the Settlement Agreement and the Amended Settlement Agreement. Substantive changes consist of updates to comply with Governor's Executive Order B-29-15 and Commission's Resolution W-5241 and changes to Section 9.6 addressing the Mains Replacement Program. The Mains Replacement Program in the Final Settlement Agreement represents a compromise between the original settlement agreement and the Commission's Proposed Decision mailed on April 1, 2015.

The Town's comments against adoption of the Final Settlement Agreement center around two issues, namely the potential surcharges due to mandatory conservation, and the Mains Replacement Program.

3.1. Water Consumption and Revenues

ORA and Ranchos agreed to Rancho's number of customers, consumption per customer, unaccounted for water, total water supply, and present rate revenues, as set forth in the table below. Ranchos updated its estimates of consumption per customer, total water supply and revenues to comply with the Governor's mandatory conservation executive order. The reduction in water sales and water production generates a proportional reduction in supply costs, but results in an increase in the tiered rates to achieve Ranchos' authorized revenue requirement.⁶

The Town, in its comments against adoption of the settlement, states that ratepayers would likely see significant surcharges if they are unable to reach the conservation target. While true, this is not a valid reason to reject the Final Settlement Agreement. The intent of conservation rate design is to send timely

⁶ See Amended Supplemental Testimony of Apple Valley Ranchos Water Company at 9.

and effective price signals to the consumer, thereby incentivizing conservation.⁷

If rates are kept artificially low, it would result in significant overconsumption, under-collections and surcharges being levied at a later date.

Table 2 Water Consumption and Revenues

Test Year 2015	Average Number of Customers	Settlement Agreement Consumption per customer	Final Consumption per Customer (Ccf)	Final Total Water Supply (Ccf)	Final Present Rate Revenues
Residential	18,015	197.42	151.70	2,732,949	\$12,543,218
Commercial	1,364	585.02	476.41	649,824	\$2,963,627
Industrial	2	641.00	485.84	972	\$4,311
Public Authority	45	6,389.00	4,833.88	216,558	\$776,019
Irrigation Pressure	166	1,606.23	1,333.24	221,318	\$809,275
Private Fire Service	239	7.57	8.5	2032	\$306,474
Public Authority Irrigation	5	5,364.92	4,514.97	22,575	\$32,025
Irrigation Gravity	1	456,274.90	456,274.90	456,275	\$196,700
Apple Valley Golf Course	1	126,540.00	117,077.45	117,077	\$107,703
Temporary Construction	11	801.01	801.01	8,811	\$65,564
Unaccounted For Water (Domestic)	N/A	N/A	N/A	253,539	N/A
Unaccounted For Water (Irrigation)	N/A	N/A	N/A	1,636,729	N/A

⁷ See D.08-09-026 and D.12-09-004 authorizing Apple Valley Ranchos Water Company's conservation rate design.

Test Year 2015	Average Number of Customers	Settlement Agreement Consumption per customer	Final Consumption per Customer (Ccf)	Final Total Water Supply (Ccf)	Final Present Rate Revenues
Miscellaneous Revenue	N/A	N/A	N/A	N/A	\$46,693
Total Revenue					\$17,851,608

We therefore find the updated sales forecast and resulting rate changes, as agreed to by Ranchos and ORA, to be reasonable in light of the record, consistent with the law, and in the public interest.

In order to foster ratepayer awareness, Ranchos is directed to explain the impact of Executive Order B-29-15 and Resolution W-5041 on water rates in its notice of rate increases to its ratepayers. Ranchos' notice must be reviewed and approved by the Commission's Public Advisor's Office.

3.2. Operations and Maintenance

In general, Ranchos' expense estimates were based on a five-year average of recorded expenses (2009–2013) escalated to the test year when such an average methodology was appropriate. The parties agreed that the 2013 data used is to include recorded 2013 updates. The parties also agree to use ORA's recommendation of a labor escalation factor of 1.5 percent for 2014, and 1.9 percent for Test Year 2015. The parties agree to use composite escalation factors of 2 percent for 2014, and 2 percent for Test Year 2015, based on the 60/40 weighting of the Non-Labor Index and the Compensation per Hour.

As for purchased power and replenishment assessments, chemical expenses, leased water rights, uncollectibles, and depreciation clearing, ORA and Ranchos agreed on the same methodologies and reached the same estimates after using updated 2013 recorded data and resolving total water supply and utility

plant in service estimates. Moreover, ORA and Ranchos agreed to use Ranchos' five-year average methodology with certain exceptions for estimating operations-other, customer-other (excluding conservation), and maintenance-other. Due to reductions in water consumption and water supply pursuant to the Amended Scoping Memorandum, Ranchos' Supplemental Testimony made corresponding changes to its operation and maintenance expenses that were reviewed and agreed to by ORA.

ORA and Ranchos agree to calculate payroll using ORA's proposed end-of-year 2014 pay rates with an increase of 2.6 percent for 2015. The payroll expenses for the escalation years 2016 and 2017 will be calculated according to the Escalation Year methodology in the Rate Case Plan. The table below summarizes the compromise.

Table 3 Payroll

Test Year 2015	Ranchos	ORA	Settlement/Final Agreement
Payroll Operations	\$837,851	\$823,965	\$834,443
Payroll Customers	\$506,633	\$498,085	\$504,509
Payroll Maintenance	\$437,181	\$429,856	\$435,255
Payroll Clearings	\$122,904	\$120,856	\$122,404
Total O & M Payroll	\$1,904,569	\$1,872,762	\$1,896,611

With the above payroll compromise and updated 2013 recorded data, ORA and Ranchos reached the same estimate for clearings-other and payroll-clearings.

3.3. Administrative and General Expenses

ORA recommended 17 adjustments to Ranchos' initial administrative and general expense estimates. Two of those adjustments were due to the use of updated 2013 recorded data, while nine of the adjustments arose out of resolutions between Ranchos and ORA concerning the escalation factor, five-year

average methodology, payroll estimates, and utility plant in service estimates.

The table below summarizes the settlement on the recommended adjustments.

Table 4 Administrative and General Expenses

Test Year 2015	Ranchos	ORA	Final Settlement
Administrative & General Payroll	\$1,616,364	\$1,590,294	\$1,609,905
Post-retirement Health and Life Benefit - Ranchos	\$41,547	\$35,597	\$35,597
Medical Insurance - Ranchos	\$605,868	\$596,220	\$605,964
Dental Insurance - Ranchos	\$47,796	\$46,332	\$46,332
401(K) - Ranchos	\$79,261	\$69,720	\$78,921
EAP/Wellness - Ranchos	\$22,269	\$5,351	\$10,702
401(A) - Ranchos	\$77,276	\$56,632	\$76,789
Irrigation Net Benefits Adjustment	\$2,063	\$2,030	\$2,056
Insurance	\$662,982	\$644,088	\$662,407
Uninsured Property Damage	\$8,785	\$8,717	\$8,766
Regulatory Commission Expense	\$162,304	\$131,341	\$159,307
Total Estimate for Outside Services	\$261,181	\$230,307	\$244,353
Total Administrative and General - Other Expenses	\$514,452	\$451,471	\$496,013
Administrative and General Transferred Credit	(\$637,345)	(\$184,846)	\$357,202
Rents	\$17,281	\$16,711	\$16,809
Depreciation Expense	\$3,222,134	\$3,001,600	\$ 3,158,559

3.4. Taxes

ORA accepts Ranchos' methodology for calculating estimates for Ad Valorem Taxes, Payroll Taxes, Tax Depreciation, Interest Expense Deduction, and the Qualified Production Activities Deduction. The original variations in estimates between the two parties were due to the use of estimates made prior to resolution.

In regard to ORA's recommendation concerning the American Taxpayer Relief Act of 2012, the parties have resolved this issue by excluding this recommendation because Ranchos does not elect to take the Bonus Depreciation for 2013 and regulatory agencies cannot impute bonus depreciation for ratemaking purposes when a utility has elected not to take it.

We accept income tax expenses as updated by Ranchos' supplemental testimony to reflect the reduction in revenues and expenses due to the projected reduction in its water production.

3.5. Utility Plant in Service

This section of the settlement resolves capital budgets, the construction of a new well, the deferred construction of a storage tank at the Bell Mountain tank site, the Mains Replacement Program, replacement vehicles, implementation of Power Plan software, and Customer Information System related projects.

For the General Office, Ranchos agreed to withdraw its request for the creation of an auto-import tool for new customers. As a result of the settlement, Ranchos withdrew its request to construct a new office building and will instead file a separate application for the new building at a different time. Similarly, Ranchos withdrew its request for the General Office Remodel from this proceeding and instead will request it in the Park Central Basin Test Year 2016 GRC application.

3.5.1. Mains Replacement Program

A major difference between the Settlement Agreement and the Final Settlement Agreement is Section 9.6 addressing the Mains Replacement Program as shown in Table 5 below. Ranchos and ORA reached an alternative settlement on Ranchos' Main Replacement Program after jointly rejecting the Commission's modification. The final settlement is a compromise between their original settlement and the Commission's proposed modification.

Table 5: Mains Replacement Program

Year	AVR Original	ORA Original	Settlement Agreement	Proposed Decision	Final Settlement Agreement
2014	\$4,985,153	\$1,689,314	\$4,985,153	\$3,057,846	\$3,637,258
2015	\$5,791,591	\$1,729,013	\$5,291,591	\$3,129,705	\$4,095,036
2016	\$6,007,083	\$1,769,645	\$5,507,083	\$3,203,253	\$4,610,396

In its comments, the Town alleges that the Amended Mains Replacement program is against the public interest because: (1) the settled estimate for the mains replacement exceeds Ranchos' historical level of spending; and (2) Ranchos has over-invested in mains replacement.

We find that Ranchos and ORA have provided sufficient evidence in the record to support the adoption of the Amended Mains Replacement Program. Mains replacements are needed to minimize liability, property damage, water loss and to maintain reliable service. When mains are replaced, they are often upsized to comply with local fire district ordinances. In the current GRC, Ranchos seeks to replace existing mains, improve fire flow capacity, fire hydrant spacing, water quality and accommodate work by others such as road

construction.⁸ Ranchos has approximately 465 miles of mains in its system and has reduced its leak rates from around 750 leaks in 2007 to 511 leaks in 2012.⁹ To reach the industry leak rate goal of 0.15 leaks per mile, per year as recommended by the American Water Works Association, Ranchos needs to reduce its leak rate to 69.75 leaks each year.

At the May 13, 2015 EH on the Mains Replacement Program, Mr. Rick Dalton from Ranchos testified that over the last 15 years, Ranchos replaced an average of 4.8 miles of mains each year. Although more costly than the historical average, the Mains Replacement Program contemplates a reduced main replacement rate of approximately 3.45 miles for 2014 and a slight increase for each succeeding year.¹⁰ The increase in costs is due to the need to replace larger transmission pipes now versus smaller distribution pipes in the past. While the larger transmission pipes account for a lower number of leaks in the system, leaks/bursts in larger pipes results in substantially larger water loss from the system. This replacement rate is less than recommended by Ranchos' Asset Management Report.¹¹ The Mains Replacement Program represents a reasonable compromise of the parties' positions and balances the competing interests of infrastructure maintenance, upgrade, and providing quality water service to Apple Valley residents at affordable rates.

The Mains Replacement Program is also consistent with the law and in the public interest. The Commission has long recognized the importance of a

⁸ Settlement Agreement attached as Attachment A at 52.

⁹ Exhibit A-1 at 63.

¹⁰ See May 13, 2015 Transcript of EH in A.14-01-002.

¹¹ See Exhibit A-21 at 7.

properly maintained infrastructure to a water utility's ability to meet its mandate to deliver "clean, safe and reliable water to their customers at reasonable rates." In its 2010 Water Action Plan, we noted that Water infrastructure in California continues to need significant improvement. The CPUC will encourage financial incentives and direction for investment in infrastructure needed to improve water quality.

As such, we find the Mains Replacement Program, as contained in the Final Settlement Agreement to be reasonable in light of the record, consistent with the law, and in the public interest.

3.5.2. Depreciation Rates, Reserve, and Depreciation Expense

Ranchos and ORA's methodology for calculating depreciation reserve and expenses did not differ. Moreover, ORA accepted Ranchos' method for estimating depreciation rates.

3.6. Rate Base

Ranchos and ORA did not have methodological differences for calculating deferred income tax estimates. The actual differences in estimates were resolved once Ranchos corrected errors in its Application and the parties reached a resolution for utility plant estimates. ORA agreed to Ranchos' estimates for materials and supplies using the stipulated number of customers.

ORA and Ranchos had conflicting methodologies for deriving working cash estimates but settled on using a specific revenue lag, including in Operational Cash the unamortized portion of agreed upon rate case costs and studies included in the settlement and the stipulated and adopted expenses and utility plant in service estimates. The Amended Settlement Agreement is

updated by the Supplemental Testimony to reflect changes in the sales forecast and associated reductions to the rate base.

3.7. Park Water Company General Office

This section of the settlement resolves estimates concerning Park Water Company General Office, which include payroll, maintenance, insurance, bank fees, outside services, board of directors' fees, taxes, and depreciation, among others. The resolution of each issue was achieved by one party accepting the position of another or by a compromise between the two positions.

3.8. Affiliate Transactions, Rate Design, and Water Quality

ORA does not contest Ranchos' methodology for estimating affiliate transactions and residential and non-residential rate design. ORA also found Ranchos to be in compliance with the State Water Resources Control Board's water quality regulations, federal drinking standards, and the Commission's General Order 103-A.

3.9. Memorandum and Balancing Accounts

ORA and Ranchos agree that Ranchos will continue using its accrual method accounting practice. The parties also agreed to the terms of recovery for seven of Ranchos' memorandum accounts and that five of the memorandum accounts will be closed. Ranchos also agreed to withdraw its request for a Hexavalent Chromium 6 Memorandum Account because the State Water Resources Control Board's regulation for Chromium 6 does not impact Ranchos' groundwater sources.

3.10. Special Requests

Ranchos requested two additional tariff charges for fire flow testing and restoration of service. ORA did not oppose Ranchos' fire flow testing tariff

charge but did oppose restoration of service during after-hours and voluntary disconnection for non-emergency, voluntary disconnection after-hours (non-regular hours). However, after settlement negotiations, the parties agreed that both tariff changes should be adopted and that the costs should be charged to those causing the expense, rather than distributed to all customers.

Ranchos proposed to increase the Supply Facilities Fee and Supplemental Water Acquisition Fee in Section C of its Rule No. 15, Main Extensions. The Supply Facilities Fee would increase from \$900 to \$1,000 for a 5/8-inch meter, with increases to large meter sizes based on the Commission's service charge ratios. Ranchos also proposed to increase the Supplemental Water Acquisition Fee from \$5,000 to \$7,000 per lot. After discussion during settlement negotiations, the parties agreed to updated fees that are reduced from Ranchos' original proposal.

3.11. WRAM/MCBA (without modification)

Ranchos proposed to continue its existing WRAM/MCBA with modifications. These modifications include adding the gravity irrigation system to the WRAM/MCBA mechanism and adding the costs of chemicals to the MCBA. ORA opposed Ranchos' requested modifications to the WRAM/MCBA. Although the parties disagree on Ranchos' proposed modifications to the WRAM/MCBA, they agree that the WRAM/MCBA mechanism is generally achieving its stated purpose of promoting conservation and that the Commission should authorize the continuance of the WRAM/MCBA. They also recommend that the Commission not adopt any of the five options as outlined in D.12-04-048. We resolve the disputed modifications in Section 4.7 of this decision and discuss our review of the WRAM/MCBA mechanism in Section 5 of this decision.

3.12. Low-Income Ratepayer Assistance Program

ORA does not oppose Ranchos' request to continue its existing low-income discount program known as California Alternate Rates for Water (CARW). Ranchos proposes to continue its program by: (1) increasing the current monthly service charge discount of \$6.69 by the average percent increase to rates authorized in this proceeding; (2) the continuation of a surcharge to offset the CARW discounts provided to qualifying customers; and, (3) recovering the under-collection recorded in the CARW Balancing Account as of December 31, 2013, in the amount of \$425,758 through a 12-month temporary surcharge.

3.13. Discussion

Rule 12.1 requires that we evaluate each proposed settlement to determine whether it is reasonable in light of the whole record, consistent with the law, and in the public interest. The Final Settlement Agreement describes the settling parties' initial and settled positions, the settlement on each issue, and provides references to the evidentiary record addressing the particular issue. In addition, Ranchos and ORA also submitted a Final Joint Comparison Exhibit showing each party's starting positions and the final settlement.

3.13.1. The Final Settlement Agreement is Reasonable in Light of the Record

Ranchos, ORA and the Town began this proceeding with both similar and disparate positions and conclusions about the various issues involved in this GRC. Each party represented their respective interests in reviewing the testimony, reports, Minimum Data Requirements and data request responses and have been involved in discussions of the issues presented in the Application and are knowledgeable and experienced regarding these issues. The Parties conducted arm's length settlement negotiations throughout the proceeding. The

Final Settlement Agreement balances the various interests affected in this proceeding and reflects appropriate compromises of the Parties' litigation positions, and is reasonable.

As discussed above, the Town filed comments against the settlement on only two issues: (1) Mains Replacement Program; and (2) potential surcharges against Ranchos ratepayers due to Resolution W-5041. Although the Town did not sponsor the proposed settlement, it was represented by counsel and participated in the negotiation process. Pursuant to Rule 12.1, not all parties to the proceeding need be parties to the settlement so long as the proposed settlement meets the Commission's criteria for settlement review. We find the Town's objections to have been sufficiently addressed by Ranchos and ORA in the record. We find the amended Mains Replacement Program to be a reasonable compromise between party positions and the Commission's proposed modification. Furthermore, the conservation rate structure resulting from the updated sales forecasts reflect the true cost of providing safe and reliable water service and serve to incentivize conservation as intended.

**3.13.2. The Final Settlement Agreement is
Consistent with the Law and Prior
Commission Decisions**

We are not aware of any statutory provisions or prior Commission decisions that would be contravened or compromised by the Amended Settlement Agreement. The issues resolved in the Final Settlement Agreement are within the scope of the proceeding, and will result in reasonable rates for Ranchos' customers reflecting the true cost of providing water service, thereby reducing the potential for future surcharges. As such, we find the proposed settlement to be consistent with the law.

**3.13.3. The Final Settlement Agreement
is in the Public Interest**

The Final Settlement Agreement results in reasonable rates to Ranchos' customers while providing Ranchos adequate funding for the safe and reliable provision of water service to its customers.

The Commission has issued numerous decisions which endorsed settlements as an "appropriate method of alternative ratemaking" and express a strong public policy favoring settlement of disputes if they are fair and reasonable in light of the whole record.¹² Adoptions of reasonable settlements reduce the expense of litigation and conserve Commission resources, and allow parties to reduce the risk that litigation will produce unacceptable results.

In addition to conserving Commission resources and reducing litigation expense, the Commission has also reviewed other factors in assessing whether a settlement is in the public interest. We have looked at the extent to which discovery has been completed, the stage of the proceeding, whether the Parties had undertaken a thorough review of the issues, the experience of counsel, a governmental participant, the overall strength of applicant's case, and the relative risks and complexities of the litigation.¹³ In the present case, prepared testimony has been served, extensive discovery has been completed, two rounds of EHs have been held and the parties have negotiated and re-negotiated their positions based on the Commission's proposed modification to their original

¹² See D.88-12-083 at 221-223 and D.91-05-029 at 326.

¹³ See D.00-09-037 citing *Officers for Justice v. Civil Service Commission of the City and County of San Francisco* (9th Cir. 1982) 688 F.2d 615, 625.

settlement positions. The recommended revenue requirement is reasonable in light of the record and current drought conditions.

3.13.4. Conclusion

Based upon the record of this proceeding, we find the parties complied with Rule 12.1(a) by making the appropriate filings and noticing settlement conferences. Based upon our review of the settlement documents, we find that the settlement contains a statement of the factual and legal considerations adequate to advise the Commission of the scope of the settlement and of the grounds for its adoption; that the settlement was limited to the issues in this proceeding; and that the settlement included comparisons indicating the impact of the settlement in relation to the utility's application and issues the other parties contested in their prepared testimony, or would have contested in a hearing. We conclude, pursuant to Rule 12.1(d) that the settlement is reasonable in light of the whole record, consistent with the law and in the public interest.

4. Disputed Issues Resolved by this Decision

This decision also resolves the disputed issues between ORA and Ranchos not contained in the settlement agreement. The disputed items are:

- Conservation estimate;
- Conservation balancing account;
- Solar project memorandum account;
- Office remodel balancing account;
- Use of estimates in balancing accounts;
- Level payment plan;
- Sales reconciliation mechanism;
- Inclusion of gravity irrigation system in the WRAM/MCBA;
and,

- The inclusion of chemicals in the MCBA.

Three issues between the Town, who is not a party to the Settlement Agreement, and Ranchos remain unsettled as well. They relate to 1) WRAM/MCBA Implementation Review; 2) Rate Design; and 3) Water Rate Comparison.

4.1. Conservation Estimates

This decision authorizes an aggregate conservation budget of \$ 344,066 for the three-year GRC cycle. Ranchos will continue tracking its conservation expenses in a one-way balancing account subject to refund at the end of the GRC cycle. To ensure consistent spending while allowing flexibility, we allow Ranchos an annual 20 percent variance from its estimated conservation expenses of \$ 112,425 for 2015, \$ 114,674 for 2016 and \$ 116,967 for 2017. Finally, spending on conservation-related public information and outreach shall continue to be subject to a \$30,000 annual cap.

Ranchos requests removal of the one-way balancing account and an aggregate conservation budget of \$350,902 for the three-year GRC cycle (2015-2017) based on its 2011 Water Use Efficiency Business Plan. ORA recommends the continuation of the one-way balancing account and a conservation budget of \$67,817 for 2015, \$69,445 for 2016, and \$71,042 for 2017. ORA points to Ranchos' underspending its conservation budget in 2012 and 2013 as justification for reducing the conservation program budget.

While the Commission authorized an aggregate conservation cap for the 2012-2014 rate case cycle,¹⁴ the cap was based on estimated annual spending in

¹⁴ Settlement Agreement attached as Attachment A to D.12-09-004 at 14.

the areas of public information, high efficiency nozzle distribution, high efficiency toilet install, and the cash for grass turf removal program. The aggregate cap was intended to allow variances in annual spending, rather than an underspending of approximately 40 percent of the authorized amount.¹⁵

California's drought conditions warrants continuation, rather than reduction of conservation programs. The Commission adopts Ranchos recommendation of \$ 344,066 for the three-year GRC cycle as long as Ranchos consistently spends the allotted amount over the three years. To promote efficient and consistent spending, we allow Ranchos an annual 20 percent variance from its estimated conservation expenses of \$ 112,425 for 2015, \$ 114,674 for 2016 and \$ 116,967 for 2017. The 20 percent variance should be subject to carry over throughout the rate case cycle, consistent with accounting practices for balancing accounts. By granting \$ 344,066 to be used consistently over three years, Ranchos is afforded flexibility in its conservation programs so that it can better handle increased customer participation and meet its conservation goals. If Ranchos fails to spend its conservation budget as directed by the Commission, the unspent funds must be refunded to ratepayers and any overspending must be absorbed by Ranchos shareholders.

We adopt ORA's recommendation to cap conservation-related public outreach at \$30,000 annually, and decline Ranchos' request to remove the one-way balancing account subject to refund. Any unspent funds must be refunded to ratepayers via surcredits at the end of this GRC cycle. In consideration of Ranchos' conservation budget, requiring Ranchos to use a

¹⁵ Ranchos spent \$129,423 of its estimated \$210,905 conservation budget in 2012 and 2013 and plans to spend all of its \$81,452 underspent in 2014. See Exhibit O-1 at 3-7.

one-way balancing account enables the Commission to ensure that Ranchos properly balances conservation program investments over the course of the rate case period.

4.2. Solar Project Memorandum Account

The Commission authorizes Ranchos to establish a memorandum account to track the costs associated with investigating the viability of installing an Alternating Current (AC) solar photovoltaic generation system at its office site. Any cost recovery of this memorandum account will be subject to a reasonableness review during Ranchos' next GRC.

Ranchos requests authorization to establish a memorandum account to track the costs, expenses, and capital costs associated with exploring the viability of installing an AC solar photovoltaic generation system on the grounds of its office site.

ORA opposes the authorization of a memorandum account because the details of Ranchos' program remains undefined, Ranchos has not conducted a cost-effectiveness analysis, the costs of such a project may result in significant rate increases to ratepayers, and Ranchos has not met the requirements of establishing a memorandum account under Standard Practice U-27-W.

While ORA's concerns have merit, the purpose of a memorandum account is to allow the company to enter into an action where it bears the full risk of future rate recovery based upon a later reasonableness review. Here, the account would be structured such that Ranchos bears the full risk of recovery because cost recovery is subject to a reasonableness review. Furthermore, Ranchos is only authorized to investigate the viability of solar installation, rather than actual construction. Therefore, the Commission preserves the ability to deny Ranchos recovery of costs when less expensive sources of power are available.

Moreover, the purpose of the account, to explore the viability of solar photovoltaic generation system at Ranchos' site, is consistent with Commission policy of encouraging the use of renewable energy to reduce power costs. Therefore, the Commission grants Ranchos the authority to establish a memorandum account to track the costs and expenses associated with investigating the viability of installing a solar photovoltaic generation system for its office site. To be clear, any actual installation and construction is not authorized by the memorandum account and will be subject to Commission review in another proceeding. Ranchos must file a Tier 2 Advice Letter incorporating the memorandum account into the preliminary statements in its tariff.

4.3. Office Remodel Balancing Account

The Commission denies Ranchos' request to recover at this time the costs tracked in its Office Remodel Balancing Account. D.12-09-004 authorized Ranchos to create a balancing account to track the revenue requirement associated with the office building modification that could be recovered "once the construction was completed," subject to a reasonableness review.¹⁶ Therefore, because Ranchos' office reconfiguration has yet to be completed, Ranchos may not seek recovery of the costs tracked in the Office Remodel Balancing Account. Ranchos will be able to seek recovery of the balancing account when construction/remodel is completed for its office project.

¹⁶ D.12-09-004 at 18.

4.4. Use of Estimates in Ranchos' WRAM/MCBA

The Commission denies ORA's recommendation that Ranchos be required to stop using the accrual method of accounting for recording costs in its WRAM/MCBA. Ranchos may rely on the accrual method of accounting and use estimates in its WRAM/MCBA calculations.

ORA asserts that neither D.08-09-026, which adopted Ranchos' WRAM/MCBA, nor D.08-02-036, which authorized Park Water Company's WRAM/MCBA and which is what Ranchos' WRAM/MCBA is modeled after, authorize the use of estimated costs instead of actual costs.¹⁷ ORA argues that both decisions require the utility to track the difference between actual variable costs and adopted costs. ORA asserts that the appropriate time for Ranchos to file for recovery is after the accrued/estimated costs become actual costs and that by waiting to request recovery, ratepayers bear less risk of over-collection.¹⁸ ORA also suggests that Ranchos' recording method is burdensome to the Commission and points to the California State Auditor's Report, which concluded that the Commission lacks adequate processes to provide sufficient oversight of utility balancing accounts to protect ratepayers from unfair rate increases.¹⁹

Ranchos relies on the accrual method because of the timing of the retroactive calculation methodology used by the Mojave Water Agency to

¹⁷ Reply Brief of the Office of Ratepayer Advocates (ORA Reply Brief), filed August 4, 2014 at 17.

¹⁸ ORA Reply Brief at 18-19.

¹⁹ ORA Reply Brief at 20.

administer leased water rights and the timing of the Mojave Basin water year.²⁰ Since the actual costs are not available when Ranchos is required to file for its WRAM/MCBA recovery, Ranchos necessarily estimates costs incurred. Also, Ranchos must use accrual accounting to comply with Generally Accepted Accounting Principles (GAAP) and with the Commission's Uniform System of Accounts for Water Companies (Class A). Furthermore, through the true-up process, Ranchos places the true-up adjustments in the time period for which they actually occurred, and calculates the interest in the balancing account on that basis.²¹ Thus, ratepayers receive interest on any under- or over-estimating of the accruals that may occur.

4.5. Level Payment Plan

The Commission grants Ranchos and the Town's request for a Level Payment Plan that will give customers the option of paying for water service in equal bi-monthly payments based on their last 12 months average bill. At the end of the 12-month period, customers who elect the Level Payment Option will receive a settlement bill with a payment due or a credit balance. The Level Payment Plan is authorized as a pilot program subject to review during Ranchos' next GRC.

ORA asserts that Ranchos failed to provide costs associated with and mechanics of the plan and therefore failed to meet its burden to prove that costs are reasonable.²² ORA assumes that low income customers have no significant

²⁰ Opening Brief of Apple Valley Ranchos Water Company (Ranchos Opening Brief), filed July 21, 2014 at 17.

²¹ Ranchos Opening Brief at 24.

²² ORA Reply Brief at 21.

outdoor water use, therefore baseline water use should not differ dramatically in the winter versus the summer months. Also, ORA claims that the level payment plan potentially obscures the price signal sent by conservation rate design.²³

The Town recommends the adoption of the plan because it provides customers with budgetary assistance and avoids rate shock associated with fluctuating water bills.²⁴

Ranchos is not seeking any costs to implement the plan, and it points to significant fluctuations in seasonal demand in support of giving its customers the level payment option.²⁵ The Commission grants Ranchos' Level Payment Plan with the caveat that it will be subject to review during Ranchos' next GRC. The purpose of the plan is to assist households in budget planning and was requested by Ranchos' customers. By providing this option, Ranchos is being responsive to customers. Moreover, Ranchos is not requesting to recover costs or to track costs associated with the pilot program.²⁶ ORA's concerns regarding unforeseen amounts due to the end of year true-up can be minimized by the inclusion of actual usage information on each bill.²⁷ Also, the potential for obscuring conservation rate design price signals can be minimized via actual customer usage and cost information on ratepayers' bills. However, because of the valid concerns ORA raises, the Level Payment Plan must be implemented as a trial

²³ ORA Reply Brief at 21.

²⁴ Reply Brief of the Town of Apple Valley (Town Reply Brief), filed on August 4, 2014 at 1.

²⁵ Reply Brief of Apple Valley Ranchos Water Company (Ranchos Reply Brief), filed August 4, 2014 at 19.

²⁶ Ranchos Reply Brief at 19.

²⁷ Ranchos Reply Brief at 21.

program only, subject to review. We also limit enrollment to customers who have had a minimum of 12 months usage history with Ranchos to ensure adequate usage history.

4.6. Sales Reconciliation Mechanism

The Commission denies Ranchos' request to implement a Sales Reconciliation Mechanism (SRM). Ranchos seeks to implement an SRM to decrease the high WRAM surcharges that result from the significant differences between adopted and actual sales forecasts that derive from over-estimated consumption.²⁸ Ranchos proposes that the SRM will adjust the adopted sales forecast in the two escalation years following the test year if total sales for the prior year are more than 5 percent above or below the adopted test year sales.²⁹ The SRM would provide an adjustment of 50 percent of the difference.³⁰

While the proposed SRM would act to reduce the WRAM surcharges associated with a GRC, we agree with ORA and the Town that review and consideration of the proposed changes to the WRAM should occur in an industry-wide proceeding rather than adopted for a single utility.³¹

Furthermore, with an overall reduction of 28 percent in Ranchos' sales forecast/production as compared to 2013 figures, we find it unlikely that consumption would be overestimated in this GRC, or result in high WRAM surcharges.

²⁸ Ranchos Opening Brief at 29.

²⁹ Ranchos Opening Brief at 29.

³⁰ Ranchos Opening Brief at 29.

³¹ ORA Reply Brief at 22; Town Reply Brief at 2.

4.7. Modifications to the WRAM/MCBA Mechanism

Ranchos and ORA disagree on Ranchos' proposed modification to its existing WRAM/MCBA mechanisms, we resolve the disputed modifications to the WRAM/MCBA here.

4.7.1. The Gravity Irrigation System

Ranchos requests that the Commission add the gravity irrigation system to the WRAM/MCBA mechanism and eliminate the current Incremental Cost Balancing Account (ICBA).

ORA recommends denial of the request. According to ORA, commodity revenues and production costs for gravity irrigation should not be tracked in the WRAM/MCBA³² because (1) to do so will not further the State's water conservation goals and (2) fluctuations in price are already tracked in the ICBA.³³ Due to the nature of the system (gravity and non-pressurized), Ranchos does not control the amount of water pumped into, and used by the single customer.

We agree with ORA's recommendation and deny Rancho's request to add the gravity irrigation system to the WRAM/MCBA mechanism. The WRAM/MCBA was created to remove the financial disincentive for utilities to promote conservation. The gravity irrigation system serves one customer, with a water supply contract which grants the right to pump and take from wells at no cost.³⁴ Granting WRAM/MCBA treatment to the system will not promote

³² Opening Brief of the Office of Ratepayer Advocates (ORA Opening Brief), filed July 21, 2014, at 21.

³³ ORA Reply Brief at 23.

³⁴ Apple Valley Ranchos Water Company Application, Exhibit B at 42-43.

conservation, and production costs related to the irrigation system are already being tracked in the ICBA. We see no reason to change the existing system and direct Ranchos to continue the ICBA.

4.7.2. Chemical Costs

We grant Ranchos' requests to add water treatment chemicals to the MCBA. We find water treatment chemicals to be part of the production costs intended to be captured by the MCBA and see no reason they should be excluded.

4.8. Rate Design

We reject the Town's proposal for a single quantity rate for commercial and residential customers.³⁵ Ranchos' rate design program includes increasing block rates designed to promote water conservation. Tiered rates for residential customers have been thoroughly studied in many Commission proceedings and adopted as part of the Commission's Water Action Plan.³⁶ While we are sympathetic to increasing water costs for Ranchos customers, we do not see single quantity rates as a viable option that would comply with the Commission's Water Action Plan. The Town's proposal is not adopted.

4.9. Water Rate Comparison

The Town presented a water rate comparison comparing Ranchos' rates to surrounding utilities and states that the cost of service for those utilities are

³⁵ Exhibit T-2 (Rubin Direct) at 15-16.

³⁶ Water Action Plan (2005 and 2010 update); Conservation OII (Investigation 07-01-022, Order Instituting Investigation to Consider Policies to Achieve the Commission's Conservation Objections for Class A Water Utilities).

significantly lower.³⁷ It recommends that the Commission authorize a study and report on measures Ranchos can implement ... to become more efficient.”³⁸ The study presented by the Town compared Ranchos’ rates to public agencies which does not include all sources of revenue used by public agencies and municipal owned water systems to fund their water operations.³⁹

The Town has presented insufficient evidence that Ranchos is operating inefficiently, and we deny its recommendation for a new study, which would have to be paid by Ranchos customers.

5. Review of Ranchos’ Conservation Rate Pilot Program and the WRAM/MCBA Mechanisms

D.08-09-026 and D.12-09-004 authorized Ranchos’ conservation rate pilot programs and the WRAM/MCBA decoupling mechanism. The WRAM tracks the difference between adopted and actual quantity revenue and is intended to remove the financial disincentive to promote conservation. The MCBA account captures the difference in production costs due to changes in unit price or in consumption.

Pursuant to the Scoping Memorandum, Ranchos and ORA submitted testimony to determine: (1) whether the WRAMs/MCBAs are achieving their stated purpose (i.e., whether Ranchos and its ratepayers are proportionally affected under conservation rates), and if not, what changes are needed to ensure the WRAMs/MCBAs achieve their stated purpose; (2) whether the WRAMs/MCBAs have removed disincentives for Ranchos to implement

³⁷ Exhibit T-1 (Cron Direct) at 5.

³⁸ Opening Brief of the Town of Apple Valley, filed on July 21, 2014 at 18.

³⁹ Exhibit A-9 (Penna Rebuttal) at 13-14.

conservation rates and conservation programs; (3) whether cost savings resulting from conservation are passed on to ratepayers; and (4) whether overall water consumption by Ranchos ratepayers has been reduced.⁴⁰

We find the WRAM/MCBA to be serving its intended purpose by removing financial disincentives for Ranchos to implement conservation rates and programs.⁴¹ Ranchos adopted a three tier-block conservation rate design in 2009, and has implemented other conservation programs and customer conservation outreach since that time.⁴²

Cost savings from conservation are being passed to ratepayers because savings associated with over-collections in items such as purchased water, purchase power, and taxes are being returned to ratepayers and increases in total costs in these items are also being passed through to the ratepayers.⁴³

Finally, Ranchos customers have reduced overall water consumption since the implementation of conservation pricing and programs.⁴⁴ While it is likely that these programs have contributed to the reduction in consumption, it is unclear whether other factors such as the economy, the current drought, and weather have contributed to the downward trend in consumption.

⁴⁰ See Scoping Memorandum at 3-4.

⁴¹ Historically, the Commission has authorized but not guaranteed the revenues to be collected by rate-regulated utilities. However, the WRAM/MCBA mechanism effectively guarantees Ranchos' revenue requirement because Ranchos' may collect via WRAM surcharges the difference between its actual and authorized revenues.

⁴² See Exhibit O-1 at 19-7.

⁴³ See *Ibid* at 19-8.

⁴⁴ See Exhibit A-5 at 3.

On April 19, 2012, the Commission adopted D.12-04-048, addressing the schedule and process for Class A water companies with WRAM and MCBAs, to recover from or refund to customers the annual net balance in their WRAMs and MCBAs. Pursuant to D.12-04-048, Ranchos and ORA submitted testimony in this GRC on the following five WRAM alternatives.⁴⁵

- Option 1:** Should the Commission adopt a Monterey-style WRAM rather than the existing full WRAM?⁴⁶
- Option 2:** Should the Commission adopt a mechanism that bands the level of recovery, or refund, of account balances based on the relative size of the account balance.⁴⁷
- Option 3:** Should the Commission place WRAM/MCBA surcharges only on higher tiered volumes of usage, thereby benefiting customers who have usage only in Tier 1 or have reduced their usage in the higher tier levels?
- Option 4:** Should the Commission eliminate the WRAM mechanism?
- Option 5:** Should the Commission move all customer classes to increasing block rate design and extend the WRAM/MCBA mechanisms to these classes?

⁴⁵ See Exhibit A-5 David Morse's testimony on WRAM/MCBA and Exhibit O-1, ORA's Report on the Results of Operations at Chapter 19.

⁴⁶ The Monterey-style WRAM is not a revenue decoupling mechanism as such, it is rather a revenue adjustment mechanism that allows the utility to true-up the revenue it actually recovers under its conservation rate design with the revenue it would have collected if it had an equivalent uniform rate design at actual sales levels.

⁴⁷ For example, an annual WRAM/MCBA under-collection/over-collection less than 5% of the last authorized revenue requirement would be amortized to provide 100% recovery/refund, balances between 5-10% would be amortized to provide only 90% recovery/refund, and balances over 10% would be amortized to provide only 80% recovery/refund.

D.12-04-048 set forth the five Options as possible ways to address large WRAM balances. From 2009-2012, Ranchos has filed advice letters each year seeking recovery of substantial WRAM under-collections ranging from 14 percent to 37 percent of the forecasted revenues.⁴⁸ Ranchos believes this to be the result of grossly inflated forecasting,⁴⁹ while ORA believes the cause to be unclear and possibly related to weather, economy, the drought and community participation.⁵⁰ Since none of the five options outlined above address inaccurate sales forecasts (i.e., large differences between actual and forecasted consumption), regardless of the underlying cause, this decision will not adopt any of them at this time.

Options 1, 2, or 4 should not be adopted because they would tie sales to revenues, and, as a result, could discourage Ranchos from continuing its conservation rates and programs.

Option 3 should not be adopted because it would result in even larger surcharges being borne by customers that exceed Tier 1 usage.

Option 5 should not be adopted because non-residential customers of Ranchos do not have discernable consumption patterns that can be used to design increasing block rates. Ranchos' residential sales represent about 71 percent of commodity sales and are already under the three-tiered block rate design. The non-residential class consists of business (15.8 percent), industrial (0.02 percent), public authority (5.3 percent), private fire (0.03 percent),

⁴⁸ See Exhibit A-5 at 4.

⁴⁹ See *Ibid.*

⁵⁰ See Exhibit O-1 at 19-6.

temporary construction (0.3 percent) and other irrigation classes.⁵¹ The non-residential class has a dispersed pattern of usage and an equitable increasing block rate design would be nearly impossible.

We note here Ranchos has been directed to reduce its sales forecast to 75 percent of 2013 consumption to comply with the Governor's Executive Order B-29-15. With such reduction in the forecasted consumption, we do not anticipate further under-collections in the WRAM accounts during this GRC cycle.

6. Comments on Proposed Decision

The proposed decision of ALJ Tsen in this matter was mailed to the parties in accordance with Pub. Util. Code § 311 and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. On November 5, 2015, comments were filed by Ranchos, ORA and Town. Reply comments were filed by Ranchos on November 10, 2015.

Ranchos argues that a sales reconciliation mechanism should be adopted. Ranchos identified errors in certain numbers used in the decision, and recommended that several attachments be included the decision. ORA comments that amounts already recorded in the Office Remodel Balancing Account should be removed and the account should be closed. ORA also identified errors in certain numbers used in the decision. Town commented that the Mains Replacement Program should be rejected.

The comments have been considered and appropriate changes have been made.

⁵¹ See Exhibit A-5 at 16.

7. Assignment of Proceeding

Carla J. Peterman is the assigned Commissioner and ALJ S. Pat Tsen is the Presiding ALJ in this proceeding.

Findings of Fact

1. Ranchos is a Class A Water Company subject to the Commission's jurisdiction.
2. There is an adequate record composed of all filed and served documents.
3. On August 8, 2014, Ranchos and ORA filed a motion to adopt a settlement agreement on various issues.
4. On April 1, 2015, the Commission mailed a proposed decision modifying a portion of the settlement agreement.
5. On May 1, 2015, Ranchos and ORA rejected the Commission modification to their settlement agreement.
6. On May 13, 2015, Ranchos and ORA jointly filed an Amended Settlement Agreement.
7. Pursuant to an Amended Scoping Memorandum, Ranchos and ORA submitted supplemental testimony to address the effects of the Governor's Executive Order B-29-15 and Commission Resolution W-5041. Compliance with the Governor's Executive Order B-29-15 and Commission's Resolution W-5041 necessitates further water rate increases to satisfy Ranchos' authorized revenue requirement.
8. On September 14, 2015, Ranchos and ORA submitted a Final Settlement Agreement and Joint Comparison Exhibit. These documents contain the amended Mains Replacement Program and updates made to comply with the Governor's Executive Order B-29-15 and Commission's Resolution W-5041.

9. The Final Settlement Agreement resolves most of the contested issues between Ranchos and ORA including: Water Consumption and Revenues; Customer Service; Operations and Maintenance; Administrative and General expenses; Taxes other than Income; Income Taxes; Utility Plant in Service; Depreciation Rates; Reserve, and Depreciation Expense; Rate Base; Park Water Company General Office; Affiliate Transactions; Rate Design; Water Quality; Memorandum and Balancing Accounts; Special Requests for New Tariffs, Fire flow tests, interest rates applied to customer deposits and recognition of future offset; WRAM/MCBA; and The Low Income Program.

10. While the Town of Apple Valley is not a party to the Final Settlement Agreement, it was represented by counsel and participated in the settlement negotiations.

11. The Final Settlement Agreement represents a reasonable compromise of Ranchos and ORA's litigation positions and is supported by the record of the proceeding.

12. The Final Settlement Agreement does not contravene any statutory provisions or prior Commission Decisions.

13. The Final Settlement Agreement, if adopted, will reduce litigation expenses, conserve Commission resources, and provide Ranchos' customers with safe and clean water at reasonable rates.

14. A robust conservation program, with consistent annual spending, would better promote California's conservation goals.

15. A conservation program balancing account protects ratepayers and ensures refund of any unspent funds.

16. A Solar Project Memorandum account allows Ranchos the opportunity to recover costs it spends in exploring the feasibility of solar technology.

17. Ranchos will be able to recover the balance in its Office Remodel Balancing Account if and when construction is complete in a subsequent general rate case.

18. The use of estimates in Ranchos' WRAM/MCBA is in accordance with GAAP and was adopted by the Commission in past decisions.

19. Ranchos should update its WRAM/MCBA account using actual costs as soon as they become available to true-up the estimates.

20. An optional Level Payment Plan pilot, established based on past 12 months' usage would assist Ranchos' customers in household budgeting.

21. The Level Payment Plan Pilot should be reviewed by the Commission at the next GRC.

22. Adding the Gravity Irrigation System to WRAM/MCBA would not promote conservation.

23. Production costs for the Gravity Irrigation System is properly tracked in the Incremental Cost Balancing Account.

24. Water treatment chemicals should reasonably be included in the MCBA as part of production costs.

25. Ranchos customers have reduced overall water consumption under water conservation programs.

26. Since the implementation of its conservation rate pilot program in 2009, Ranchos actual sales have been below the adopted level every year.

27. Large WRAM balances result from inaccurate sales forecasts that over-estimates consumption.

Conclusions of Law

1. Rule 12.1(d) provides that the Commission will not approve settlements, uncontested unless the settlement is reasonable in light of the whole record, consistent with the law, and in the public interest.

2. The Final Settlement Agreement is reasonable in light of the whole record, consistent with the law, and in the public interest and should be adopted.

3. Ranchos should be required to provide notice of the adopted rate increase to its customers.

4. Ranchos' notice of rate increase should be reviewed and approved by the Commission's Public Advisor's Office.

5. Ranchos' request for an aggregate conservation budget of \$ 344,066 should be approved with an annual variance of 20 percent from its estimated conservation expenses of \$ 112,425 for 2015, \$ 114,674 for 2016 and \$ 116,967 for 2017. The 20 percent variance should be subject to carry over throughout the rate case cycle, consistent with accounting practices for balancing accounts.

6. Conservation spending on outreach and public information should be capped at \$30,000 annually.

7. Ranchos' conservation expenses should continue to be tracked in a one-way balancing account.

8. Ranchos should be allowed to establish a Solar Project Memorandum Account.

9. Ranchos should not be allowed to recover the costs tracked in its Office Remodel Balancing Account until construction on its office building is complete.

10. Ranchos may be allowed to rely on the accrual method of accounting and use estimates in its WRAM/MCBA calculations.

11. Ranchos should update its WRAM/MCBA to account for actual costs as soon as they become available to true-up the estimates.

12. Ranchos should be allowed to establish a Level Payment Plan for ratepayers with a minimum of 12 months payment history.

13. Ranchos should not be allowed to implement a Sales Reconciliation Mechanism.

14. Ranchos should not be allowed to include its Gravity Irrigation System to the WRAM/MCBA mechanism and eliminate the current Incremental Costs Balancing Account.

15. Ranchos should be allowed to add water treatment chemicals to the MCBA.

16. Tiered block rates should be continued as a part of the Commission's Water Action Plan.

17. The Town's request for a study on how Ranchos can be run more efficiently should be denied.

18. The WRAMs/MCBAs established for Ranchos are functioning as intended because the WRAMs/MCBAs have severed the relationship between sales and revenues and, as a result, have removed financial disincentives for Ranchos to implement conservation rates and conservation programs.

19. The cost savings resulting from conservation are being passed on to ratepayers because cost savings associated with purchased water, purchased power, and pump taxes (i.e. MCBA over-collections) are being properly returned to ratepayers; and increases in total costs associated with these items are passed through to ratepayers.

20. It is not possible at this time to determine how much of the reduction in water consumption is the result of conservation rates and conservation programs, and how much is due to other factors such as weather or economic conditions.

21. Large WRAM under-collections are the result of overestimated sales forecasts but overestimated sales forecasts result from underestimating

reductions in consumption from factors such as weather, the economy, drought declarations, or conservation rates.

22. Because the WRAMs/MCBAs established for Ranchos are functioning as intended, none of the WRAM Options set forth in D.12-04-048 should be adopted at this time.

23. None of the WRAM Options address the inaccurate forecasts that are resulting in large WRAM balances.

24. Adoption of WRAM Options 1, 2, or 4 would tie sales to revenues, and, as a result, would discourage Ranchos from offering conservation rates and conservation programs, and undermine efforts to reduce water consumption in the state.

25. WRAM Option 3, the proposal to limit the WRAM surcharge to higher tier usage customers, should not be adopted because they would result in even larger WRAM surcharges on customers that exceed Tier 1 usage.

26. WRAM Option 5 should not be adopted because, except for non-residential customers, all customer classes currently have a WRAM, and non-residential customers have such disparate usage patterns it is not feasible to design an equitable increasing block rate for that class.

O R D E R

IT IS ORDERED that:

1. The Final Settlement Agreement between Apple Valley Ranchos Water Company and the Office of Ratepayer Advocates is adopted without modification. The Final Settlement Agreement is attached as Attachment A to this decision. The Joint Comparison Exhibit is attached as Attachment B to this decision.

2. Apple Valley Ranchos Water Company shall provide notice to its customers of the adopted rate increase.

3. The Public Advisor's Office shall review Apple Valley Ranchos Water Company's notice to customers to ensure it includes an explanation of the Governor's Executive Order B-29-15 and its effect on the water rates.

4. Within sixty days of the adoption of this decision, Apple Valley Ranchos Water Company is authorized to file a Tier 2 Advice Letter to recover the difference between the interim rates and final rates from its customers in all districts. The difference between the interim and final rates based on the revenue requirement adopted here, shall be recovered over the balance of the rate case cycle.

5. For escalation years 2016 and 2017, Apple Valley Ranchos Water Company shall file Tier 2 Advice Letters in conformance with General Order 96-B proposing new revenue requirement and corresponding revised tariff schedules. The filing shall include rate procedures set forth in the Commission's Rate Case Plan (Decision 07-05-062) for Class A Water Utilities, and shall include appropriate supporting work papers. The revised tariff schedule shall take effect no earlier than January 1, 2016, and January 1, 2017, respectively, and shall apply to service rendered on and after their effective dates. The proposed revisions to revenue requirements and rates shall be reviewed by the Commission's Division of Water and Audits. The Division of Water and Audits shall inform the Commission if it finds that the revised rates do not conform to the Rate Case Plan, this order, or other Commission Decisions, and if so, reject the filing.

6. Apple Valley Ranchos Water Company is authorized an aggregate conservation budget of \$ 344,066, with \$112,425 for 2015, \$114,674 for 2016 and \$116,967 for 2017.

7. The conservation budget shall be allowed a 20 percent annual variance, subject to carry over throughout the rate case cycle, consistent with accounting practices for balancing accounts.

8. Conservation expenses for public information and outreach shall be capped at \$30,000 annually.

9. Apple Valley Ranchos Water Company shall continue to track its conservation expenses in a one-way capped balancing account.

10. Within thirty days of the adoption of this decision, Apple Valley Ranchos Water Company shall be authorized to establish a Solar Project Memorandum Account by filing a Tier 2 Advice Letter to add the memorandum account to the Preliminary Statement in its tariff.

11. Apple Valley Ranchos Water Company shall not be allowed to recover the costs tracked in its Office Remodel Balancing Account until construction on its office building is complete.

12. Apple Valley Ranchos Water Company may rely on the accrual method of accounting and use estimates in its Water Revenue Adjustment Mechanism/Modified Cost Balancing Account calculations. Apple Valley Ranchos Water Company must update the Water Revenue Adjustment Mechanism/Modified Cost Balancing Account balance to account for actual costs as soon as they become available to true-up the estimates.

13. Apple Valley Ranchos Water Company shall establish a pilot Level Payment Plan for ratepayers with a minimum of 12 months payment history. Apple Valley Ranchos Water Company shall file a Tier 2 advice letter to add the option of the Level Payment Plan to its Tariff Rule No. 9, Rendering and Payment of Bills, as authorized by this decision no later than 30 days prior to this option being made available to customers.

14. Apple Valley Ranchos Water Company's pilot Level Payment Plan shall be subject to Commission review during the next general rate case.

15. Apple Valley Ranchos Water Company is authorized to add the cost of water treatment chemicals to the Modified Cost Balancing Account.

16. Application 14-01-002 is closed.

This order is effective today.

Dated _____, at San Francisco, California